



0000130969

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

GARY PIERCE
CHAIRMAN
BOB STUMP
COMMISSIONER
SANDRA D. KENNEDY
COMMISSIONER
PAUL NEWMAN
COMMISSIONER
BRENDA BURNS
COMMISSIONER

2011 NOV -4 P 2: 38

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

NOV 4 2011

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF
SOUTHWEST GAS CORPORATION FOR
THE ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE
OF ITS PROPERTIES THROUGHOUT
ARIZONA

Docket No. G-01551A-10-0458

RUCO'S REPLY TO COMMISSIONER KENNEDY'S OCTOBER 25, 2011 LETTER

Commissioner Kennedy has requested a clear and understandable description of the proposed Settlement including a description in "layman's terms" of information regarding the potential impact of the proposed Settlement on the Company's ratepayers. Commissioner Kennedy, in her letter, indicated a concern that some of the Company's customers do not understand the technical provisions of the proposed settlement.

Except for the meeting in Sierra Vista, RUCO attended all the public comment meetings and noticed that no person spoke in favor of decoupling. From what RUCO heard, many of the people who spoke at the public comment understood that through decoupling, customers who did conserve would have to give a portion of their savings back to the utility through the decoupling mechanism. RUCO agrees with Commissioner Kennedy that there is confusion over how much of their savings must be forfeited to the utility.

1 With regard to the rate impact, the following chart measures the rate impact under the
2 proposals:

3 **Total Impact of Proposed Options for Southwest Gas Rate Case**

4

	Option A <i>Ltd. Decoupling</i>	Option B <i>Full Decoupling</i>	RUCO Option <i>No Decoupling</i>
	Applies a \$0.00213 per therm decoupling surcharge beginning in Year 1 to recover "actual lost base revenue due to energy efficiency"	No decoupling surcharge applied in the first year. In Year 2, up to a 5% increase in non-fuel rates to recover lost fixed costs from Year 1.	Shift portion of revenue requirement into fixed basic charge
	Surcharge adjusted annually with no cap.	Non-fuel rate increased up to 5% annually	Rates remain unchanged until next rate case.
Revenue Increase	\$54.9M	\$52.6M	\$47.6M
Increase on the Avg. Bill ¹	\$3.48 (adjusted annually)	\$3.33 (adjusted annually)	\$2.96 (fixed until next rate case)
ROE	9.75%	9.50%	9.50%
FVROR	7.02%	6.92%	6.85%

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

24 ¹ Current average residential bill is \$58.10 (winter) and \$24.07 (summer). These figures only include the Basic Service charge and Commodity Charge. They exclude PGA, DSM and other special line items charges. (See SWG Rate Application Schedule H-4)

1 Keep in mind that the rate increase in the rate case does not include the proposed
2 increase in the DSM surcharge. In its September 12, 2011 Application, Southwest Gas
3 proposes to quadruple the revenue collected through the DSM surcharge to \$16.5 million from
4 \$4.4 million for new and expanded EE and RET programs.

5 **Proposed Increase in DSM Surcharge in Docket No. G-01551A-11-0344**

6

	Current DSM surcharge	Proposed DSM Surcharge
Total Revenue collected	\$4.4M	\$16.5M
Surcharge Rate	\$0.00200 per therm	\$0.02673 per therm
Avg. Bill Impact		
Summer (11 therms)	\$0.02	\$0.29
Winter (39 therms)	\$0.07	\$1.04

13

17 RUCO has reviewed a draft of Southwest Gas's response to Commissioner Kennedy's
18 letter and appreciates the utility's cooperative intent. RUCO believes most of its content is
19 accurate but that it fails to provide a complete picture "in layman's terms" of the impact of
20 decoupling. RUCO appreciates the opportunity to explain in a brief layman's format its
21 perception of the Settlement and the potential impact on the ratepayer.

22 The Settlement provides two decoupling proposals – Option A, a partial decoupling
23 proposal and Option B, a full revenue decoupling proposal. Both decoupling mechanisms
24 provide a true-up component where customer rates will reset annually to account for the

1 difference between actual and anticipated (Option A) or approved (Option B) revenues. Every
2 year, if the actual amount of revenues is lower than the amount of revenue identified in the rate
3 case, the difference is made up through the decoupling mechanism². RUCO finds Southwest
4 Gas's reply adequately explains the differences between the two decoupling mechanisms.
5 While it is *theoretically* possible for decoupling to lower rates if per customer consumption
6 increases, RUCO points to evidence in the record that SWG would have collected an
7 additional \$62 million from residential customers if decoupling, as proposed in SWG's
8 Application, had been in effect from 2007-2010.

9 When the customer conserves, the customer's bill will go down because of his
10 conservation efforts. However, the bill is not going down because his rate is going down. The
11 customer's rate will in fact be going up. But the impact of that rate increase will be offset by
12 the reduced amount of money collected by the PGA since the customer will be using less
13 natural gas. If the customer is able to conserve enough natural gas, the customer will see his
14 overall bill go down. It is important to understand that the total bill will go down because the
15 customer took steps to reduce his natural gas consumption, despite the rate going up because
16 of decoupling. For those customers who are unwilling or unable to use less natural gas, their
17 bills will increase with decoupling.³

18 Typically, people associate a bill decrease with a rate decrease. However, under the
19 decoupling proposals, the customer's rate will increase if people conserve (and even if they do
20 not conserve under Option B). Stated another way, if a customer did not conserve from one
21

22 ² Proponents of the Settlement argue in its favor the situation where approved revenues exceed the actual
23 revenues resulting in a refund. But that is not likely to happen to often (extreme weather conditions) and even
less likely if there truly is conservation. That is not what this case is about nor is it why the Company and the
investor interested parties are pushing so hard for full revenue decoupling.

24 ³ Examples of persons who cannot implement significant energy efficiency/ renewable energy programs include
renters, people with limited financial resources to spend on new dishwashers or hot water heaters, or those
persons who have already installed energy efficiency appliances and renewable energy technologies prior to this
rate case.

1 month to another, his/her bill will increase because their rate increases under the decoupling
2 proposals.

3 RUCO has reviewed the transcripts from the public comment meetings. It finds that
4 many customers really do understand what is being proposed. Here are a few examples:

5
6 "And regarding decoupling, we're urged to invest in conservation
7 and energy efficiency initiatives; yet if we do, we have to assume
8 Southwest Gas's business risk and virtually guarantee substantial
9 earnings. I want to lower my gas bill through conservation and
energy efficiency; yet if I do, Southwest Gas will raise my rate.
Somehow, that doesn't exactly make me want to rush out and do
that."

10 Jim Biundo

11
12 "For those of us who want to conserve, we have to purchase items
13 that cost more than items that are not as energy efficient. So we
14 pay money to conserve in the first place. And with decoupling, now
we're going to have to give the utility even more money because
we're using less energy. That doesn't make sense."

15 Max Wexler

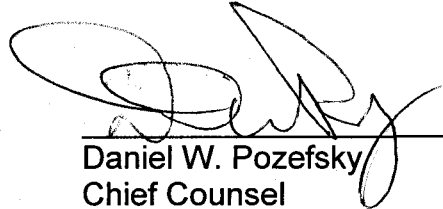
16 I have heard over and over again that our opposition to
17 decoupling is simply because we don't understand its purpose and
18 benefit to the customer. Let me be clear. I understand what
19 decoupling is and why the Commission has decided to review this
20 policy...I urge you to review this policy and to look at the risk that
21 can be tolerated by both the utility and the customer. I understand
the desire for APS to have their rates decoupled. It makes financial
sense to them to get paid a fixed cost regardless of the amount of
energy that it actually sells. It mitigates their risk while placing the
risk on us, the consumers.

22 Vance Coleman

1 "The decoupling options laid out in the proposed Southwest
2 Gas settlement agreement have no benefit for the customer and
3 only serves the best interest of the utility company because there is
no need for added infrastructure to meet the needs of the current
customer base."

4 Jan Ek

5 RESPECTFULLY SUBMITTED this 4th day of November, 2011.

6
7
8 
9 Daniel W. Pozefsky
Chief Counsel

10 AN ORIGINAL AND THIRTEEN COPIES
11 of the foregoing filed this 4th day
12 of November, 2011 with:

13 Docket Control
14 Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

15 COPIES of the foregoing hand delivered/
16 emailed this 4th day of November, 2011 to:

17 Dwight D. Nodes
18 Asst. Chief Administrative Law Judge
Hearing Division
19 Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

20 Janice Alward, Chief Counsel
Legal Division
21 Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

22 Robin Mitchell, Attorney
23 Legal Division
Arizona Corporation Commission
24 1200 W. Washington St.,
Phoenix, AZ 85007

Steven M. Olea, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Justin Lee Brown
Assistant General Counsel
Catherine M. Mazzeo, Senior Counsel
Southwest Gas Corporation
P. O. Box 98510
Las Vegas, NV 89193-8510

1 Debra S. Gallo, Director
Government and State Reg. Affairs
2 Southwest Gas Corporation
P. O. Box 98510
3 Las Vegas, NV 89193-8510

4 Michael Patten
Roshka DeWulf & Patten
One Arizona Center
5 400 E. Van Buren Street, Suite 800
Phoenix, AZ 85004

6 Philip J. Dion
7 Tucson Electric Power Co.
One S. Church Street, Suite 200
8 Tucson, AZ 85701

9 Gary Yaquinto, President & CEO
Arizona Investment Council
2100 N. Central Ave., Suite 210
10 Phoenix, AZ 85004

11 Timothy M. Hogan
Arizona Center for Law in the Public
12 Interest
202 E. McDowell Road, Suite 153
13 Phoenix, AZ 85004

14 Jeff Schlegel
SWEEP Arizona
1167 W. Samalayuca Drive
15 Tucson, AZ 85704-3224

16 Michael M. Grant
Gallagher & Kennedy, P.A.
17 2575 E. Camelback Road
Phoenix, AZ 85016-9225

18 Cynthia Zwick
19 1940 E. Luke Avenue
Phoenix, Arizona 85016

20 Laura E. Sanchez
P. O. Box 287
21 Albuquerque, NM 87103

22
23 By Cheryl Fraulob
24 Cheryl Fraulob